

STATE CONTROLLER'S OFFICE
PERSONNEL/PAYROLL SERVICES DIVISION
P. O. BOX 942850
Sacramento, CA 94250-5878

DATE: November 29, 2011

PAYROLL LETTER #11-019

TO: All Agencies/Campuses in the Uniform State Payroll System

FROM: Lisa Crowe, Chief
Personnel/Payroll Services DivisionRE: **SPECIAL ACCOUNTING PERIOD FOR NON-CASH FRINGE BENEFITS**

The Internal Revenue Service (IRS) permits employers to adopt a Special Accounting Period (SAP) for reporting **non-cash**, taxable fringe benefit values. The SAP allows employers to report values received late in one calendar year as income in the subsequent tax year. The SAP minimizes late reporting, issuing corrected Forms W-2 and employees filing amended income tax returns.

For non-cash values received by employees in November 2011, PPSD must receive the Form STD. 676V by December 02, 2011 to ensure that the taxable gross and social security/Medicare amounts associated with the non-cash values are reported on 2011 Form W-2. If the Form STD. 676V is received after December 02, 2011 a corrected 2011 Form W-2 will be issued.

GENERAL INFORMATION

This letter provides reporting instructions for **NON-CASH**, taxable fringe benefits values that employees receive in December 2011 and a sample employee notification letter regarding Special Accounting Period (SAP) provisions. (Payroll Procedures Manual (PPM) Section N175 and **Payroll Letter # 11-016 for 2011 reporting cutoff dates**).

SPECIAL REPORTING INSTRUCTIONS

Complete the **Form STD. 676V NON-USPS ADJUSTMENT REQUEST--VALUES (FRINGE BENEFITS/EMPLOYEE BUSINESS EXPENSE)** using PPM Section N-172.2 procedures. When completing column 9 (issue date), **ENTER 01/01/12 FOR ALL NON-CASH VALUES THAT EMPLOYEES RECEIVE DURING DECEMBER 2011**. These non-cash values will be reflected in the 2012 Form W-2.

NOTE: Federal and State income taxes are not withheld from the December warrant for any fringe benefits reported for November. See PPM Section Z Attachment N-2 for additional information on the fringe benefit processing under the SAP.

MANDATORY EMPLOYEE NOTIFICATION

The Internal Revenue Service **REQUIRES** employers (agencies/campuses) to:

- 1) notify affected employees of SAP reporting provisions;

- 2) instruct employees to use the same SAP (for value based benefits received December 2010 through November 2011) when filing personal income tax returns; and
- 3) notify employees of the **SAP NO SOONER THAN THE RECEIPT OF THE LAST PAYCHECK OF THE CALENDAR YEAR AND NO LATER THAN RELEASE OF THE EMPLOYEE'S FORM W-2.**

NOTE: Agencies/Campuses are encouraged to use the attached sample notification letter to fulfill the mandated reporting requirements.

REMINDER

The State's goal is that all employers (agencies/campuses) comply with federal and state employment tax regulations. This requires each agency/campus to report Fringe Benefits/Employee Business Expenses (FB/EBEs) on a timely, accurate and comprehensive basis. Timely reporting means when benefits are provided to employees. Accurate reporting entails proper completion of reporting documents. Comprehensive reporting means that your agency/campus reports all applicable FB/EBEs that are provided to employees, as defined in the PPM Section N-120–175 and corresponding Payroll Letters. By complying with these requirements, your agency/campus prevents fines, penalties and assessments from being levied by tax authorities. Also, a reduction in business costs stemming from retroactivity and corrected Forms W-2.

CONTACTS

If you require additional information, use the following contacts for assistance:

SAP Questions
John Ochoa (jochoa@sco.ca.gov) (916) 322-8115
Tax Support Section

FORM STD. 676V
Payroll Operations (916) 322-8100
W-2 Unit

JD: JO: TSS

ATTACHMENT

ATTACHMENT—SAMPLE LETTER TO EMPLOYEES IMPACTED BY SAP

January 9, 2012

Dear State Employee,

The Internal Revenue Service (IRS) permits employers to adopt a Special Accounting Period (SAP) for reporting **non-cash**, taxable fringe benefit values. The SAP allows employers to report values received late in one calendar year as income in the subsequent tax year. The SAP minimizes late reporting, issuing corrected Forms W-2 and employees filing amended income tax returns.

In January 1996, the State Controller's Office adopted a December through November SAP calendar. For Tax Year 2011, your 2011 Form W-2 will show non-cash values reported by your employing agency/campus and that you received in December 2010-November 2011.

NON-CASH, TAXABLE FRINGE BENEFITS

Under the SAP Program, the following non-cash taxable values are affected:

Value of State Housing	Lottery Sales Recognition
Educational Assistance Program	Rideshare Incentive Award Program
Dues and Memberships	Personal Use of State Vehicle
Loan Assumption Program	Car/Vanpool
Group-Term Life Insurance (Legislators)	Forgivable Loan/Doctoral Incentive Program
Loan Forgiveness Program	Tickets
Out-Placement	Merit Award Program (non-cash)
Scholarships (Fee Waiver Program)	Commuter Highway Vehicle
Vehicle Provided by Third Parties	Uniform Allowance
Miscellaneous Incentive Program	Discount Travel/Transit Pass (non-cash)
Overtime Meal Compensation	Electronic Devices
(i.e., Meal Tickets)	Incentive Provided by Third Parties (non-cash)

IRS REQUIREMENTS

IRS **requires** that employees use the same accounting period (December through November) when filling tax returns. Itemized deductions related to non-cash, taxable values received in December 2011 must be claimed in the following tax year (2012).

QUESTIONS

If you have any questions regarding the SAP program, please contact your Personnel/Accounting Office. **Contact your tax advisor or the IRS regarding tax-filing questions.**